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ABSTRACT

Public education in Virginia during fiscal year 2002 is characterized by fiscal crisis, reductions in funds, and no new salary increases for state employees including teachers and university faculty. The current context of recession and budget deficits, together with tax reductions imposed by the previous gubernatorial administration and current balkanization of public government funding, bodes ill for the future of public education in the Commonwealth. This paper discusses these issues together with the gubernatorial elections, state revenue projections, and the state budget for 2002-04. The dismal 2002-04 education budget reflects, in part, the state's budget crisis, though dividends for the schools were meager during the 1990s economic boom. A more plausible explanation for the lack of long-term education support in Virginia is the state's low priority for schools and universities, regardless of party control, with continuing tax balkanization for public services portending reduced funding and services for government activities together with increased disparities between communities, well into the future. (Contains 15 references.) (RT)

**State Government Finances for Public Education:
The Case of Virginia**

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Curry School of Education**

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Public education in Virginia during FY 2002 is characterized by fiscal crisis, reductions in funds, and no new salary increases for state employees including teachers and university faculty. The current context of recession and budget deficits, together with tax reductions imposed by the previous gubernatorial administration and current balkanization of public government funding, bodes ill for the future of public education in the Commonwealth. This paper will discuss these issues together with the gubernatorial elections, state revenue projections and the state budget for 2002-04.

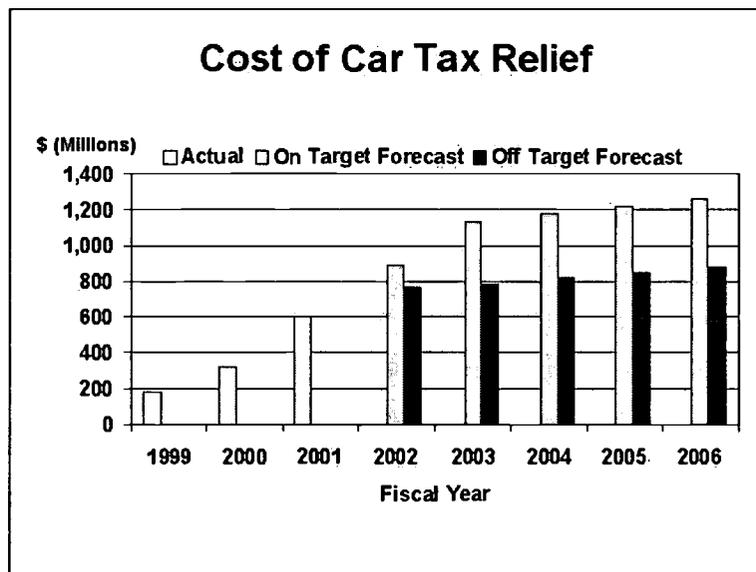
November 2001 Elections

As one of two states electing a Governor in November (the other being New Jersey), the 2001 elections brought in Democratic Governor John Warner and Lieutenant Governor John Hager, halting the Republican sweep of the last decade. However, both Houses of the General Assembly, with all members up for election in 2001, remained majority Republican, with the Senate, 22 GOP versus 18 D, and the House, 64 GOP versus 34 D.¹ Benefiting from President Bush declining to campaign for GOP candidate Mark Early and a well organized campaign, John Warner was only the fourth Governor in Virginia's history to have never held public office (Henry Carter Stuart (D), 1913, Westmorland Davis (D), 1917, and A. Linwood Holton (R) in 1969).² He reassured voters that he would not raise taxes, and would govern as a "classically cautious Virginia businessman: no tumult, no upheaval, and 'bipartisan administration.'"³

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Revenue Projections

Shortly after taking office, Governor Warner announced that the State's economy was in worse shape than indicated by the previous Gilmore (GOP) administration's projection of \$890 million, eventually projecting the budget shortfall to be about \$3.8 billion over the next 29 months. Former Governor James Gilmore, elected on an anti-tax platform, promised to eliminate the personal property tax on cars in Virginia, with a multiyear phase-out eventually agreed to by the Assembly. However, during the last session of the legislature, debate over whether to move the phase-out to 70% became so acrimonious that the GOP controlled Assembly eventually adjourned without passing a budget but Governor Gilmore pledged retroactive pay increases to state employees including teachers. Nonetheless, the 70% car tax phase-out proceeded, along with the cost of approximately \$885 million a year to be paid to localities by the state to make up for the loss of local revenue; state payments over the past 3 years have been about \$1.674 billion.

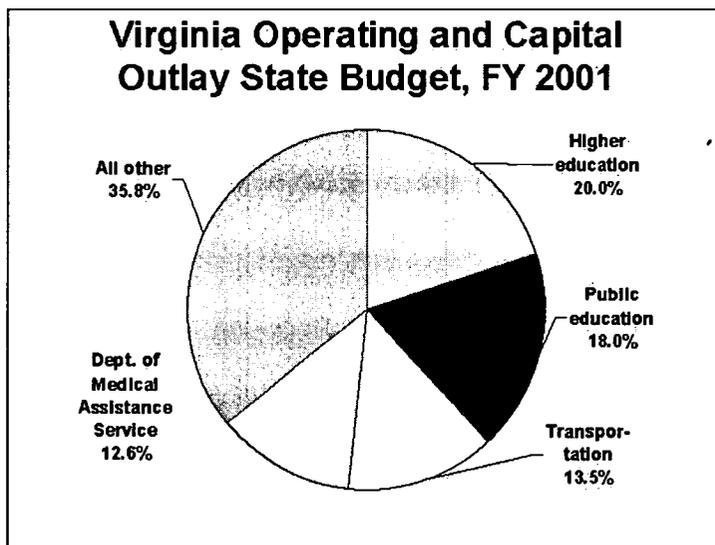


Source: DMV and Department of Accounts. Off target forecasts by Knapp, J., Weldon

Additional tax cuts include the following: the sales tax on nonprescription drugs was removed beginning in FY 1998 (\$18.7 million reduction in 2002) and reductions in food for home consumption were implemented in 1999. To date, 1/4 of the 2% reduction has been implemented, resulting in a reduction to state revenue of \$47 million in FY 2002.⁴ To these reductions were added the dampening effect of the economic downturn and the financial fall-out from the terrorist attacks particularly on tourism and meeting activity in Northern Virginia”.⁵ However, according to economist John Knapp,⁶ “the Commonwealth faces major fiscal problems beyond the current situation....”⁷

State Budget & Public Education

As would be expected, the impact of reduced state revenues on programs and services was expected to fall most heavily on the major expenditure categories of the Virginia State Budget. The major areas of the Virginia State Budget, comprising almost



Source: Virginia Department of Planning and Budget. In Knapp, J. Conference on Virginia's Future, Nov. 29, 2001, Richmond, VA.

2/3 of total proposed spending (66.5%), are: higher education (20.0%), public K-12 education (18.7%), transportation, 13.5% and Medicaid, 12.6%. The most difficult funding problem is transportation. According to past Governor and U.S. Senator, Charles Robb:

“We have an almost dysfunctional transportation system that hurts our economy, frustrates our citizens, and keeps too many parents sitting in traffic rather than at the dinner table. We have a public school system that’s falling behind”....with state government promising to pay 55 % of the costs of schools, but only paying about 40% with many communities not able to make up the difference.⁸

Elementary and Secondary Education. Virginia’s public schools were the subject of a great deal of scrutiny if not action during the 90 day session of the General Assembly commencing in January 2002, with a major study on financing held for release until after the November elections.⁹ The focus of the study was on Standards of Quality Costs, the minimum costs necessary to comply with state constitutional and legislative requirements. The recommendations were presented in three tiers for 2002-2004; Tier I found that \$1.06 billion would be needed to correct flaws in the current method of determining costs (biennial); Tier II involved new state aid to e.g., enhance staffing (\$386 million) and at-risk preschool programs (\$9-\$83 million). Tier III would “change the current state policy of limited aid for school construction,” and begin to move teacher’s salaries towards the national average.¹⁰ The total is \$1.5 to \$1.8 billion in the next biennium.

At the same time as the JLARC report recommends cost increases for public schools, costs are increasing as a result of enrollment growth. As of September 29, 2000, a record 1.14 million students were enrolled in Virginia’s public schools.¹¹ This is the highest figure for school enrollment ever recorded and projections indicate that this figure will

increase over the next five years. Elementary membership appears to have peaked; high school enrollment is expected to increase 10% by the fall of 2005. The greatest enrollment growth will occur in Northern Virginia, particularly in Loudon, Fairfax, Prince William and Spotsylvania Counties.¹² Meanwhile, research shows that disparities in school spending between poor and affluent localities have remained high despite the economic boom of the 1990s.¹³

JLARC Elementary & Secondary Education Study Options: Additional State Costs, 2002-2004		
Tier	Description	Millions
1.	Meet SOQ costs using JLARC-recommended cost estimating principles	\$683
2.	Enhance instructional staffing practices and at-risk pre-school funding	\$386
3.	Enhance state support of capital costs based on per pupil debt service	Up to \$291
	Enhance teacher salaries, including moving toward the national average	\$87 to \$394

Source: JLARC, *Review of Elementary and Secondary School Funding*. Staff Briefing. Funding. (Richmond: Joint Legislative Audit and Review Commission, November 20, 2001). In Knapp, J. J. Conference on Virginia's Future, Nov. 29, 2001, Richmond, VA.

2002-2004 Action on Education in the General Assembly. Shortly before leaving office, Governor Gilmore conceded that promised retroactive pay increases for teachers, university faculty and other state employees would be “very difficult given the worsening fiscal situation;” he left office without fulfilling his pledge.¹⁴ The General Assembly, convening under Governor Warner, focused attention on financing transportation and education, with several bills authorizing substate regions, such as school districts, to increase local option sales tax for this purpose. The bills failed in the

last day of the session when the speaker of the House, Vance Wilkins, ended the session early delaying a vote. However, bills to allow localities to raise taxes for education and transportation resurfaced during the veto session with a singular proposal to put increased sales taxes on the ballot in Northern Virginia for roads winning approval. Also, the freeze on state tuition was lifted, with colleges and universities authorized to increase tuition up to 9% next year.

During the 2002-04 session, bills that would provide more money for schools were generally “passed on” or “passed by” to the following year, and bills on social issues such as posting “In God We Trust” or the Ten Commandments in all schools (public places) were debated with the former passing.

The adopted 2002-04 state budget for Direct Aid to Public Education contains a net increase of only \$29.7 million (general fund [GF]) with modest attention to recommendations for Tier I of the JLARC report, generally paid for by diverting resources from the Literary fund (capital construction loans for poor school districts) and eliminating or reducing current programs. No salary increases for FY 2003 were enacted for state employees, including teachers and higher education faculty. Instead a one-time 2.5% bonus was endorsed. However, additional federal funding is forthcoming under the Elementary and Secondary (P.L. 89-10 as amended) reauthorization entitled “No Child Left Behind Act”.¹⁵ This is expected to be used mainly for the enhanced testing program under the Act, in each grade from grade 3-8. The state budget also includes a net increase of \$3.5 million GF for the Department of Education to enhance the state’s testing program and fully fund bonuses for teachers achieving National Board Certification (\$5,000 first year, \$2,500 for years 2-10).

The dismal 2002-04 education budget reflects, in part, the state's budget crisis, although dividends for the schools were meager during the 1990s economic boom. A more plausible explanation for the lack of long-term education support in Virginia is the state's low priority for schools and universities, irregardless of party control, with continuing tax balkanization for public services portending reduced funding and services for government activities together with increased disparities between communities, well into the future.

ENDNOTES

*Presented at the American Education Research Association Annual Meeting, New Orleans, LA, April 2002.

¹ / Sabato, L. J. (February 2002). A Democratic Revival in Virginia. The Virginia Newsletter, vol. 78, no. 2, Charlottesville, VA: The University of Virginia, Weldon Cooper Center.

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⁴ / The analysis relies on Knapp, J. (January 2002). Virginia's Fiscal Condition-More Than a Short-Term Problem, The Virginia Newsletter, vol. 78, no. 2, Charlottesville, VA: The University of Virginia, Weldon Cooper Center.

⁵ / Knapp, J. (January 2002). *Virginia's Fiscal Condition*.

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⁸ / Robb, C. (September 2001). The Dilemma Virginia Faces: Public Needs vs. Public Costs. The Virginia Newsletter, vol. 77, no. 6, Charlottesville, VA: The University of Virginia, Weldon Cooper Center.

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¹³ / Salmon, R.G. & Verstegen, D.A. (Fall 2001). An Analysis of Fiscal Equity Provided by the JLARC System for Financing Public Schools: Commonwealth of Virginia 1987-88 to 1997-98. Educational Considerations, vol. 29, no.1, pp. 1-6.

¹⁴ / Heyser, H. The Virginia Pilot. (December 4, 2002). News/Virginia: Retroactive Pay Increases "Very Difficult" Governor Says. <URL: <http://www.pilotonline.com/news/>>

¹⁵ / For further information on the state budget see: URL <<http://legis.state.va.us>>.

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